

## Message Text

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ACTION EA-12

INFO OCT-01 ISO-00 AGRE-00 SP-02 USIA-06 AID-05 EB-08  
NSC-05 TRSE-00 SS-15 STR-04 OMB-01 CEA-01 CIAE-00  
COME-00 FRB-03 INR-07 NSAE-00 XMB-02 OPIC-03  
LAB-04 SIL-01 DODE-00 PM-05 H-01 L-03 PA-01  
PRS-01 CU-04 /095 W

-----065473 260719Z/21

R 260605Z AUG 77  
FM USLO PEKING  
TO SECSTATE WASHDC 8548  
INFO AMCONSUL HONG KONG  
AMEMBASSY SINGAPORE  
AMEMBASSY TAIPEI  
AMEMBASSY TOKYO

C O N F I D E N T I A L SECTION 1 OF 2 PEKING 01878

E.O. 11652: GDS  
TAGS: ECON, PINT, CH  
SUBJECT: ECONOMIC POLICY AND THE 11TH PARTY CONGRESS

1. SUMMARY: STATEMENTS ON ECONOMIC POLICY AT THE 11TH PARTY CONGRESS SUPPORT PREVIOUSLY SET ECONOMIC POLICIES OF THE HUA GOVERNMENT--NOTABLY PRIORITY ATTENTION TO AGRICULTURE, ACCELERATED DEVELOPMENT OF BASIC INDUSTRIES, STRENGTHENING OF SCIENTIFIC AND TECHNOLOGICAL TRAINING, REDUCTION OF ADMINISTRATIVE COSTS AND IMPROVED LIVING STANDARDS ON THE BASIS OF INCREASED PROCUTION. IT IS UNCLEAR WHAT, IF ANY, CHANGES IN ECONOMIC POLICIES WILL FOLLOW THE OFFICIAL END OF THE CULTURAL REVOLUTION; ALTHOUGH SORELTY NEEDED CHANGES ARE IN STORE IN EDUCATION. WAGE POLICY MAY BE ONE OF THE MOST DIFFICULT ECONOMIC ISSUES FACING THE HUA GOVERNMENT. END SUMMARY.

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2. WHILE IT PROCUCED NO NEW DEPARTURES IN ECONOMIC POLICY, THE 11TH CCP CONGRESS PUBLICLY SANCTIONED THE MAIN THEMES OF THE PREVIOUSLY ANNOUNCED POLICY OF THE HUA GOVERNMENT AND WENT SO FAR AS TO WRITE THE "FOUR MODERNIZATIONS" INTO THE PARTY CONSTITUTION. THE CONGRESS ALSO PORCLAIMED THE END OF THE

CULTURAL REVOLUTION, BUT THIS WAS NOT PUBLICLY ASSOCIATED WITH ANY CHANGES IN ECONOMIC POLICY. ECONOMICS GOT CONSIDERABLE SPACE IN CONGRESS DOCUMENTS AND IN THE AUGUST 22 JOINT EDITORIAL. MAJOR ECONOMIC LINES OF THE HUA GOVERNMENT WERE REITERATED--PRIORITY ATTENTION TO AGRICULTURE, ACCELERATED DEVELOPMENT OF BASIC INDUSTRY, STRENGTHENING OF SCIENTIFIC AND TECHNICAL TRAINING, REDUCTION OF NON-PRODUCTIVE PERSONNEL AND IMPROVED LIVING STANDARDS FOLLOWING INCREASED PRODUCTION.

3. DESPITE THE FAMILIARITY OF THESE THEMES, CERTAIN ASPECTS OF THEIR PRESENTATION ARE NOTEWORTHY:  
--MODERNIZATION AND MILITARY POWER. HUA'S POLITICAL REPORT CLEARLY INDICATED THAT MILITARY MODERNIZATION DEPENDS ON ECONOMIC DEVELOPMENT. THE JOINT EDITORIAL REITERATED THIS POINT.  
--RAISING LIVING STANDARDS. THE COMMITMENT TO RAISING LIVING STANDARDS ON THE BASIS OF PRODUCTION WAS MADE CLEAR, BUT CONGRESS DOCUMENTS ARE DEVOID OF HINTS ABOUT HOW THIS WILL BE DONE. HUA'S REPORT ENDORSES THE LONG-STANDING SOCIALIST PRINCIPLE "TO EACH ACCORDING TO HIS WORK" BUT IMPLIES THAT THIS SHOULD LEAD  
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TO ENHANCED "COLLECTIVE" RATHER THAN INDIVIDUAL WELFARE.  
--STRENGTHENING SCIENCE AND TECHNOLOGY. SCIENTIFIC RESEARCH WAS TERMED "VITAL" TO ECONOMIC CONSTRUCTION AND THE GANG OF FOUR'S "SABOTAGE" WAS CONDEMNED. THE CREATION OF A CORPS OF SCIENTISTS TO BE A LEADING AGENT IN ECONOMIC CONSTRUCTION IS TO BE TACKLED IN EARNEST," AND A NATIONAL CONFERENCE ON SCIENTIFIC WORK IS TO BE CONVENED "AT AN APPROPRIATE TIME."

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4. CONFERENCE DOCUMENTS PAID ALLEGIANCE TO MAO'S LINE AND CONTAINED SOME STRONGLY-WORDED ADMONISHMENTS ABOUT SAFEGUARDING SOCIALIST PUBLIC OWNERSHIP AGAINST ATTACKS BY URBAN AND RURAL CAPITALISH ROADERS. AT THE SAME TIME, A MORE MODERATE AND PRAGMATIC APPROACH WAS TAKEN TO CURRENT PROBLEMS. THE PRE-EMINENT NEAR-TERM (1980) OBJECTIVES REMAIN BUILDING "AN INDEPENDENT AND FAIRLY COMPREHENSIVE INDUSTRIAL AND ECONOMIC SYSTEM," BASIC MECHANIZATION OF AGRICULTURE, AND CREATION OF THE INDUSTRIAL CONDITIONS NECESSARY FOR FURTHER ECONOMIC EXPANSION DURING THE SIXTH FIVE-YEAR PLAN (1981-1985). HUA REPEATED EARLIER CALLS TO TURN ONE-THIRD OF THE COUNTRY'S ENTERPRISES INTO ADVANCED TACHING ENTERPRISES AND A THIRD OF THE COUNTIES INTO ADVANCED TACHAI COUNTIES DURING THE CURRENT FIVE-YEAR PLAN PERIOD. HUA MADE SPECIAL MENTION OF THE NEED TO ACHIEVE

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"CONSIDERABLE INCREASES" IN AGRICULTURAL AND SIDE-LINE PRODUCTION. REALIZATION OF THE MAOIST OBJECTIVE OF ELIMINATING THE "THREE GREAT DIFFERENCES" (I.E., BETWEEN TOWN AND COUNTRY, BETWEEN AGRICULTURE AND INDUSTRY AND BETWEEN PHYSICAL AND MENTAL LABOR WAS RELEGATED TO THE DISTANT FUTURE.

5. REVIEWING ECONOMIC PERFORMANCE SO FAR THIS YEAR, HUA STATED THAT SINCE MARCH "INDUSTRIAL PRODUCTION, THE VOLUME OF

TRANSPORT, STATE PURCHASES AND SALES OF  
COMMODITIES AND STATE REVENUES HAVE ALL GONE  
UP," SETTING NEW RECORDS, AND CLAIMED THAT  
"GROSS VALUE OF INDUSTRIAL OUTPUT FOR JUNE  
SURPASSED THE HIGHEST MONTHLY LEVEL OF THE  
PAST." IN AGRICULTURE, "LOSSES HAVE BEEN  
CONSIDERABLY REDUCED AND A FAIRLY GOOD HARVEST  
OF SUMMER GRAIN GATHERED IN MANY AREAS."  
(NOTE: NCNA AUGUST 24 REPORTED THAT GVIO IN  
JULY SHOWED A 22.4 PERCENT INCREASE OVER JULY  
OF LAST YEAR AND SURPASSED THE PREVIOUS PEAK  
FOR THAT MONTH. NO JUNE-JULY COMPARISON WAS  
MADE, HOWEVER.)

6 COMMENT: THE IMPLICATIONS FOR ECONOMIC  
POLICY AND CONSTRUCTION OF THE OFFICIAL ENDING  
OF THE CULTURAL REVOLUTION ARE NOT YET CLEAR.  
AT A MINIMUM, IT WILL MAKE EASIER THE ON-GOING  
REVERSAL OF THE POLICIES WHICH HAVE HELD BACK  
DEVELOPMENT OF QUALIFIED SCIENTISTS AND  
TECHNICIANS SINCE THE MID-SIXTIES. IT MAY  
EVENTUALLY MAKE EASIER THE ESTABLISHMENT OF MORE  
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EFFECTIVE MATERIAL AND NON-MATERIAL INCENTIVES  
IN BOTH THE INDUSTRIAL AND AGRICULTURAL SECTORS.

7. IT IS CLEAR THAT THE REGIME APPRECIATES  
THE ECONOMIC PROBLEMS IT FACES. HUA'S  
REMARKS ON ECONOMIC PERFORMANCE SO FAR THIS  
YEAR STRONGLY SUGGEST SLOW RECOVERY IN  
INDUSTRY AND CONTINUING SHORTFALLS IN  
AGRICULTURE. AUGUST RED FLAG ARTICLES  
INDICATE THAT A CRACKDOWN ON FISCAL LASSITUDE  
AT THE ENTERPRISE LEVEL IS IN PROGRESS--  
SPURRED, NO DOUBT, BY SERIOUS STATE REVENUE  
SHORTFALLS LAST YEAR AND PERHAPS THIS YEAR AS  
WELL. UNDER THESE CIRCUMSTANCES, THE QUESTION  
OF WAGE ADJUSTMENTS MUST RANK AS ONE OF THE  
MOST DIFFICULT FACING THE NEW POLITBURO.  
MATERIAL INCENTIVES IN THE FORM OF INDIVIDUAL  
PRODUCTION BONUSES WOULD FIT OBJECTIVE ECONOMIC  
REQUIREMENTS BUT WOULD BE A DIFFICULT STEP  
POLITICALLY. A GENERAL WAGE INCREASE FOR  
LOWER WAGE-EARNING CLASSES WOULD BE POLITICALLY  
MORE PALATABLE, BUT PROBABLY MUCH MORE EXPENSIVE.  
HUA'S GOVERNMENT WILL HAVE TO FACE THIS  
ISSUE BEFORE THE CONFERENCE ON WAGES SCHEDULED  
FOR THE FIRST HALF OF NEXT YEAR.

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## Message Attributes

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